

## TESTIMONY BEFORE THE SENATE BUDGET COMMITTEE by

#### Senator Pete V. Domenici and Dr. Alice M. Rivlin<sup>1</sup> Co-Chairs, Bipartisan Policy Center Debt Reduction Task Force

March 15, 2011

Mr. Chairman, Senator Sessions, and Members of the Committee:

Thank you for the opportunity to testify before the Committee today.

We believe that America is facing two huge challenges that can only be surmounted if both political parties work together: recovery from the recession and restraining the soaring federal debt. We also believe that these two challenges must be addressed simultaneously.

The federal budget is on a dangerous, unsustainable path. Even after the economy recovers from this deep recession, federal spending is projected to rise substantially faster than revenues and the government will be forced to borrow ever-increasing amounts. Without policy changes, federal debt will rise to unmanageable levels, which will push interest rates up, endanger our prosperity, and make us increasingly vulnerable to the dictates of our creditors, including nations whose interests may differ from ours.

This alarming prospect was created by the actions of both political parties over many years, with strong public approval. Promises to provide benefits and services through Medicare, Medicaid, Social Security and many other spending programs, as well as reductions in taxes, were extremely popular and both parties took credit for them. But now, with an aging population and increasingly expensive health care, federal spending will rise much faster than revenues if those popular policies are not changed.

However, the actions needed to reduce the growth of national debt and bring deficits back to manageable levels are all unpopular. Neither party can take the required actions alone without suffering adverse political consequences. The only hope is for the two parties to come together around a bipartisan plan – which liberals, moderates, and conservatives alike see as fair – and work together to make it a reality.

On January 25<sup>th</sup>, 2010, the Bipartisan Policy Center – founded by former Senate Majority Leaders Howard Baker (R-TN), Tom Daschle (D-SD), Bob Dole (R-KS), and George Mitchell (D-ME) – launched a Debt Reduction Task Force to develop a long-term plan to

<sup>&</sup>lt;sup>1</sup> The views expressed in this statement do not necessarily reflect those of staff members, officers, or trustees of the Brookings Institution.



reduce the debt and place our nation on a sustainable fiscal path. The BPC asked us to co-chair the Task Force and we were honored to accept.

The two of us share strong beliefs that America must learn to live within its means, that the current budget path endangers the future of our country, and that bipartisan action is urgently needed. Each of us played a significant role in the successful bipartisan efforts that brought the federal budget into surplus for four years in a row starting in the late 1990s and reduced the debt held by the public.

We know from personal experience that bipartisan budget agreements are extremely difficult to create – neither side gets what it wants – but they are possible. The budget outlook is even more threatening today than it was then, and we hope that our political leaders will see the urgency of working together to take the difficult actions now to restore America to economic health.

Our Task Force – 19 Americans from across the country, with diverse backgrounds and views – examined a broad range of spending and revenue options for the federal government. On November 17 2010, we released our plan, "Restoring America's Future." It provides a comprehensive, viable path to restore our economy and build a stronger America for future generations.

To arrive at consensus on a plan of this size and complexity, each of the Task Force members made significant compromises. To be sure, not every member agreed with every element of this plan. But, each member agrees on the urgency of economic recovery and stabilizing the debt and believes that, as a whole, this plan offers a balanced, effective, and reasonable approach to the twin challenges at hand. Perhaps most importantly, the plan demonstrates that at this time of political uncertainty, a bipartisan group can craft a comprehensive and viable blueprint to tackle the nation's most serious economic challenges.

Mr. Chairman, Senator Sessions, and Members of the Committee: The congressional budget process gives you the means, at this critical moment in history, to adopt a comprehensive debt stabilization plan. You have only to summon the political will and utilize the Budget Resolution and Budget Reconciliation process that are at your disposal.



#### The Twin Challenges of Strengthening the Recovery and Stabilizing the Debt

America is the strongest, most prosperous, and most resilient nation in history. However, America's leadership and greatness, our strength and prosperity, are not guaranteed. We face two huge challenges simultaneously.

First, we must recover from the deep recession that has thrown millions out of work, slashed home values, and closed businesses across the country.

Second, we must take immediate steps to reduce the unsustainable debt that will be driven by the aging of the population, the rapid growth of health care costs, exploding interest costs, and the failure of policymakers to limit and prioritize spending.

These two challenges must be addressed at the same time, not sequentially. We need immediate action to sustain the recovery and create jobs, but we cannot delay putting in place measures that will restrain the buildup of debt. If we do not control the debt, the recovery will not be sustainable.

With current policies in place, the debt is slated to grow far larger than the economy itself, forcing the nation to borrow enormous and unprecedented sums of money, increasing our dependence on China and other foreign lenders, diminishing our living standards, raising risks of an economic crisis, and reducing America to a second-rate power.

At stake are both our economic security and our national security. Federal Reserve Chairman Ben Bernanke warns that threats to our economy are "real and growing" and that our path is "unsustainable" because, at some point, our creditors would refuse to lend to us. Chairman of the Joint Chiefs of Staff, Admiral Michael Mullen, calls the debt "the single biggest threat to our national security."

That's why we face a fundamental choice:

We can close our eyes, keep avoiding the problem, and generate more debt that will threaten our economy, mortgage our children's future, and diminish our leadership around the world.

Or, we can choose a new course – one that can revive our economy, create new and better jobs, restore our financial independence, and ensure that America remains the world's preeminent economic, military, and political power. The Task Force report, "Restoring America's Future," is a plan for that new course that we believe would meet both the short- and the longer-run challenges simultaneously.

The Bipartisan Policy Center's Task Force members were former White House and Cabinet officials, former members of Congress, former governors and mayors, business



and labor leaders, economists and budget experts: Democrats, Republicans, and Independents – Americans from across the country, with widely diverse views about public policy and the role of government.

The Task Force members understood that the key to stabilizing the debt begins with a strong economy that reignites demand for goods and services and encourages businesses to invest and create jobs.

Currently, millions of Americans cannot find jobs or are underemployed. That's why this bipartisan plan calls for *fully* suspending Social Security payroll taxes for one year – called a "payroll tax holiday" – which would immediately add money to employee paychecks while incentivizing companies to hire new workers.

The partial tax holiday enacted in December is on the right track, but insufficient – particularly with rising energy prices and the reduction of state and local government spending.

A full \$640 billion payroll tax holiday would provide a big shot in the arm to revive our economy and create jobs.

At the same time, we must restore optimism about the economy's future in order to boost investment. A comprehensive debt-reduction package would assure investors worldwide that America is back on track, with a solid plan and a stable economic future.

In that regard, the plan aims to reduce and stabilize the national debt below 60 percent of the gross domestic product (GDP) – an internationally recognized standard – by 2021 and ensure that the debt stops growing faster than our economy.

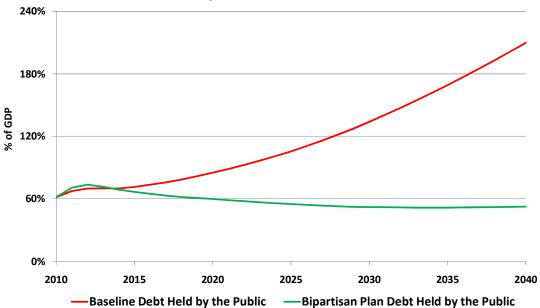
The plan also would balance the "primary budget," the budget other than interest payments, by 2014. On a "unified budget basis" (i.e., including interest), the plan would ensure that future budget deficits are small and manageable.

But, above all, it would ensure a strong economy for future generations of Americans.



### **Debt Drops Dramatically Under**

### Bipartisan Plan



Source: CBO's "Alternative Fiscal Scenario" constructed from the August 2010 Budget and Economic Outlook, additionally assuming that troops in Iraq and Afghanistan are reduced to 30,000 by 2013.

#### Our Growing Debt and the Risks of Inaction

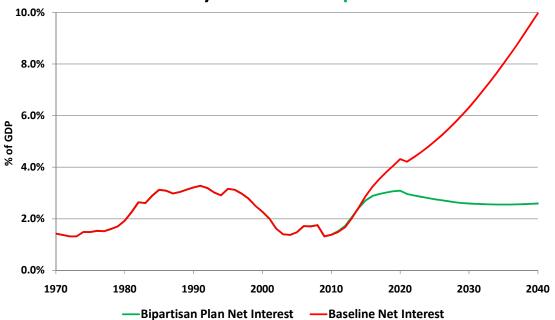
Without action, growing deficits and debt will create serious problems for our economy, our prosperity, and our leadership role in the world.

First, the higher the debt, the more interest we have to pay. At the moment, interest rates are at historically low levels because of our weak economy and because the fiscal problems of other countries leave investors around the world few attractive alternatives to U.S. Treasury securities. But as our economy recovers and other nations address their problems, interest rates will return to higher levels, which will increase interest costs on our debt significantly.

In 2022, the federal government will pay \$1 trillion – 16 percent of all federal spending – just for interest payments. Viewed another way, the federal government would have to allocate about half of all income tax receipts to pay interest, and interest payments would exceed the size of the entire defense budget.



# Net Interest Payments Drop Dramatically Under Bipartisan Plan



Source: CBO's "Alternative Fiscal Scenario" constructed from the August 2010 Budget and Economic Outlook, additionally assuming that troops in Iraq and Afghanistan are reduced to 30,000 by 2013.

Moreover, by 2025, without a dramatic change in fiscal policy, federal revenues will be completely consumed by the combination of interest payments, Medicare, Medicaid, and Social Security. The Treasury will have to borrow money to finance all of its other obligations – including defense, homeland security, law enforcement, food and drug inspection and other vital operations.

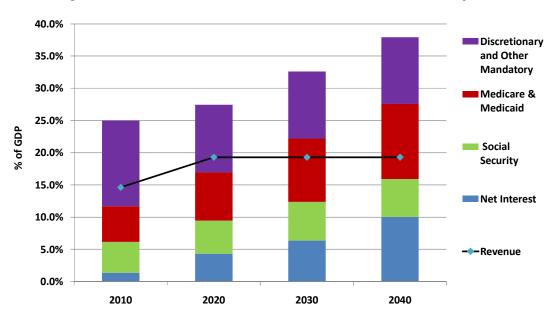
These projections are based on fairly moderate assumptions about future interest rates. The nation's outlook will grow far more ominous if America's creditors lose confidence in the federal government's commitment to address its debt problem – which would increase interest rates. A loss of confidence in the markets could also send the value of the dollar plunging overseas, which could trigger runaway inflation and still higher interest rates.

Rising debt and rising interest costs could evolve into a "death spiral," with the two feeding off one another in an ever-more vicious cycle. No one knows when such a catastrophe might occur, but no prudent nation would put itself at such risk.



Even without a crisis, rising debt will increase our reliance on foreign lenders, raising a host of other economic and national security issues. Already, more than half of U.S. federal debt is foreign-owned and China is the largest foreign holder.

# Revenues Completely Consumed by Major Entitlements and Interest by 2025



Source: CBO's "Alternative Fiscal Scenario" constructed from the August 2010 Budget and Economic Outlook, additionally assuming that troops in Iraq and Afghanistan are reduced to 30,000 by 2013.

Rising deficits and debt will weaken the nation in other serious ways as well. Federal deficits soak up private savings that would otherwise be available for investment in factories, equipment, and jobs.

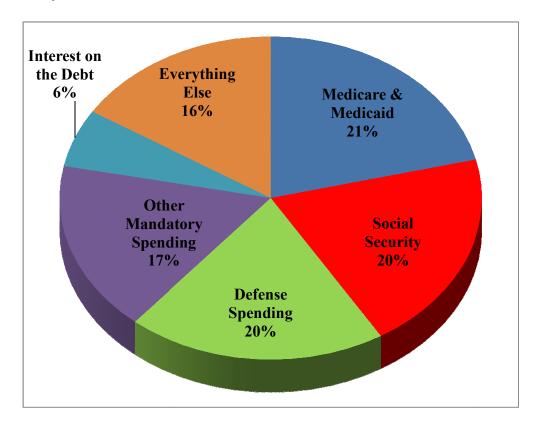
At some point, without a change in policy, the federal government's out-of-control borrowing will have to stop. The only question is whether policymakers address the debt problem now in a deliberative and thoughtful manner, or whether they would be forced to do so by a sudden economic crisis.



#### **No Easy Answers**

Most Americans would be reluctant to cut several key categories of federal spending. In fiscal year (FY) 2010:

- Medicare and Medicaid consumed **21 percent** of federal spending;
- Social Security consumed 20 percent;
- Defense consumed **20 percent**;
- Other mandatory spending (for example, veterans' compensation, unemployment insurance, and food stamps) consumed 17 percent; and
- Interest on the debt consumed **6 percent**.
- That leaves **only 16 percent** for everything else veterans' health care, homeland security and law enforcement, education and student aid, roads and bridges, food and drug inspection, energy and the environment, and so on. Clearly, there are no easy answers to the debt crisis.





Contrary to recent rhetoric, policymakers cannot solve the debt crisis simply by eliminating congressional earmarks (less than one percent of the discretionary budget) or foreign aid, which is less than one percent of the total budget.

Nor can policymakers significantly reduce the debt by eliminating "waste, fraud, and abuse," although they surely should undertake efforts to eliminate as much waste, fraud, and abuse as possible.

Nor can policymakers realistically solve the problem simply by cutting domestic discretionary spending. Stabilizing the debt by 2021 through domestic discretionary cuts alone would require eliminating nearly all such spending – everything from law enforcement and border security to education and food and drug inspection.

Nor can policymakers rely on hopes of a strong economy to "grow our way out of the deficit." Just to stabilize the debt at 60 percent of GDP, the economy would have to grow at a sustained real rate of more than 6 percent per year for at least the next 10 years. The economy has never grown by more than 4.4 percent in any decade since World War II.

Nor can policymakers solve the problem simply by raising taxes on wealthy Americans. Reducing deficits to manageable levels by the end of the decade though tax increases on the most well-to-do Americans would require raising the top two bracket rates to 86 percent and 91 percent<sup>2</sup> (from the current 33- and 35 percent rates).

There are no easy answers, no quick fixes. Following is a bipartisan, fair and reasonable plan that calls for reforms to every part of the budget and the participation of all Americans to restore America's future for our children and grandchildren.

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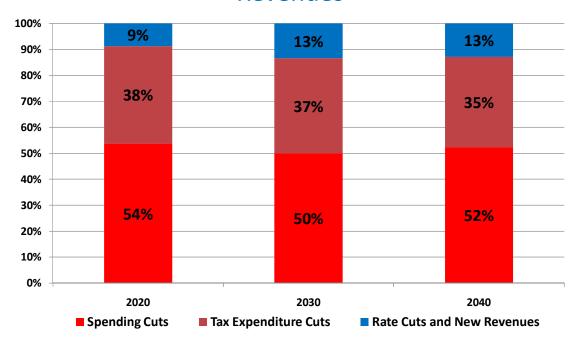
<sup>&</sup>lt;sup>2</sup> Rosanne Altshuler, Katherine Lim, and Roberton Williams, *Desperately Seeking Revenue*, Tax Policy Center, January 29, 2010, http://www.taxpolicycenter.org/UploadedPDF/412018 seeking revenue.pdf.



#### Sources of Debt Reduction in BPC Plan:

# Spending Cuts, Tax Expenditure Cuts, and New

#### Revenues



Note: The spending cuts total does not include the reduction of interest payments

The Task Force approached its task as not just a challenge, but also as an opportunity to recommend significant and sorely needed changes to both taxes and spending.

On the spending side, our plan fixes Social Security, which is on an unsustainable path, reins in rising health care costs, and freezes both defense and domestic discretionary spending – without making excessive cuts that might stall the recovery.

On the tax side, the Task Force plan dramatically simplifies taxes by eliminating years of accumulated tax preferences – allowing major tax rate reductions, while raising additional revenues to reduce the debt. Lower corporate rates would make America more competitive, and lower individual rates with a simplified tax system would give taxpayers renewed confidence that our system is fair and understandable. A Debt Reduction Sales Tax (DRST), along with the plan's spending cuts, would reduce our debt.



#### **Summary of Debt Reduction Task Force Recommendations**

#### 1. Revive the Economy and Create Jobs

- Enact a "payroll tax holiday" for one year excusing employers and employees from paying the 12.4 percent tax into the Social Security Trust Funds.
- Under Congressional Budget Office (CBO) assumptions, this would **create** between 2.5 and 7 million new jobs.
- The tax holiday would not impact the solvency of the Trust Funds, which can be reimbursed in full from general revenues at the same time that they would have received payments in the absence of the holiday.

#### 2. Reduce and Stabilize the Debt

- By 2021, reduce and stabilize the federal debt below 60 percent of GDP, an internationally recognized standard for fiscal stability, and reduce annual budget deficits to manageable levels.
- The plan would balance the primary budget (the budget other than interest) by 2014.
- On a "unified budget basis," which includes interest, the plan would ensure that future budget deficits are small and manageable. But, above all, it would ensure a strong economy for future generations of Americans.
- Reduce federal spending from a projected 26 percent of GDP to 22.3 percent by 2021, with revenues at 21.7 percent.
- These fiscal changes would enable the Federal Reserve to hold interest rates down longer in order to strengthen the economic recovery.



#### 3. Create a Simple, Pro-Growth Tax System

- Cut tax rates; broaden the tax base; boost incentives to work, save, and invest; and ensure, by 2018, that nearly 90 million households (about half of potential tax filers) no longer have to file tax returns.
  - ✓ Cut individual income tax rates and establish just two rates 15 and 27 percent replacing the current six rates that go up to 35 percent.
  - ✓ Cut the top corporate tax rate to 27 percent from its current 35 percent, making the United States a more attractive place to invest.
  - ✓ Eliminate most deductions and credits and simplify those that remain while making them better targeted and more effective.
  - ✓ Replace the deductions for mortgage interest and charitable contributions with 15 percent refundable credits that anyone who owns a home or gives to charity can claim.
  - ✓ Restructure provisions that benefit low-income taxpayers and families with children by making them simpler, more progressive, and enabling most recipients to receive them without filing tax returns.
- Establish a new 6.5 percent national Debt Reduction Sales Tax (DRST) that, along with the spending cuts outlined in this plan, would reduce the debt and secure America's economic future.
- These reforms, taken together, would make the tax system more progressive.
- **4. Restrain Rising Health Care Costs** (Savings through 2021: \$1.1 trillion, excluding interest)
  - Incentivize employers and employees to select more cost-effective health plans:
    - ✓ Cap the exclusion of employer-provided health benefits in 2018, and then phase it out over 10 years.
  - Control Medicare costs in the short term:
    - ✓ Gradually raise Medicare Part B premiums from 25 to 35 percent of total program costs (over five years).



- ✓ Use Medicare's buying power to increase rebates from pharmaceutical companies.
- ✓ Modernize Medicare's benefits package, including the copayment structure.
- ✓ Bundle Medicare's payments for post-acute care to reduce costs.
- Preserve Medicare for the long term:
  - ✓ Transition Medicare, starting in 2018, to a "premium support" program that limits growth in per-beneficiary federal support (to GDP-plus-1 percent, as compared to current projections of GDP-plus-1.7 percent). The new system would maintain traditional Medicare as the default, but would charge higher premiums if costs rise faster than the established limits. Alternatively, beneficiaries could opt to purchase a private plan on a health insurance exchange. Competition among plans should improve the quality of care and increase efficiency.
- Control Medicaid costs in the short term:
  - ✓ Apply managed care principles in all states to aged Supplemental Security Income (SSI) beneficiaries.
- Control Medicaid costs in the long term:
  - ✓ Beginning in 2018, reduce the amount by which Medicaid is growing faster than the economy (that is, reduce annual per-beneficiary cost growth by 1 percentage point).
  - ✓ There are various approaches to achieving these savings. One option would be to reform the shared financing arrangement between the federal and state governments, which has led to gaming of the matching payment system and rising health care costs. Through a federal-state negotiation, allocate program responsibilities between the federal government and the states, so that each would fully finance and administer its selected components of the Medicaid program. This would restore incentives for cost containment, and slow future program spending growth.



- Reform medical malpractice laws:
  - Cap awards for noneconomic and punitive damages for medical malpractice.
  - ✓ Start large-scale testing of systemic reforms, including safe harbors for practices that conform to accepted guidelines, specialized malpractice courts, and administrative proceedings to resolve disputes.
- Help reduce long-term health care spending to treat obesity-related illnesses –
  including diabetes, heart disease, cancer, and stroke by imposing an excise tax
  on the manufacture and importation of beverages sweetened with sugar or highfructose corn syrup.
- The Task Force plan accommodates a permanent fix to the sustainable growth rate (SGR) mechanism that currently requires unrealistic automatic cuts in physician payments (which Congress has been annually delaying).

#### 5. Strengthen Social Security

In order to guarantee that Social Security can pay benefits for the next 75 years and to restrain the impact of the baby boom generation on our growing public debt:

- Gradually raise the amount of wages subject to payroll taxes (currently \$106,800) over the next 38 years to reach the 1977 target of covering 90 percent of all wages.
- Change the calculation of annual cost-of-living adjustments (COLAs) for benefits to more accurately reflect inflation. (This is a technical change that would be applied in all government programs that use COLAs, including the indexation of tax brackets.)
- Slightly reduce the growth in benefits compared to current law for approximately the top 25 percent of beneficiaries.
- Increase the minimum benefit for long-term, lower-wage earners, and protect the most vulnerable elderly with a modest benefit increase. The former is particularly targeted to address the needs of long-time laborers who are unable to remain in



the workforce due to the demanding nature of their work.

- Beginning in 2023, index the benefit formula for increases in life expectancy and require the Social Security Administration to ensure that early retirees understand that they are opting for a lower monthly benefit. These changes would increase the incentive to work longer, while not changing either the age of full retirement or the early retirement age from those in current law.
- Cover newly hired state and local government workers under the Social Security system, beginning in 2020, to increase the universality of the program.
- 6. **Freeze Domestic Discretionary Spending** (Savings through 2021 compared to CBO baseline: \$338 trillion, excluding interest)
  - Freeze domestic (i.e., non-defense) discretionary spending for four years at 2011 levels and cap at GDP thereafter.
  - Implementing the freeze would require policymakers to terminate ineffective
    programs and set priorities across the broad range of government programs.
    Savings can also be achieved through adopting state and local best practices,
    modernizing the federal government's regional office structure, and sharing
    human resources, procurement, and other services across federal agencies.
  - Enforce the freeze through statutory spending caps, which, if exceeded, trigger automatic across-the-board cuts in all domestic discretionary programs.
- **7. Freeze Defense Spending** (Savings through 2021 compared to CBO baseline: \$440 billion, excluding interest)
  - Freeze defense discretionary spending for five years and cap at GDP thereafter (baseline assumes reduction of troop levels deployed in combat to 30,000 by 2013).
  - Among the options for achieving the required savings are streamlining military
    end strength, prioritizing defense investment, maintaining intelligence capabilities
    at a reduced cost, reforming military health care, and applying the savings from
    Secretary Gates' efficiency measures to deficit reduction.



• Implement the freeze through statutory spending caps, enforceable through automatic across-the-board cuts in all defense programs.

#### **8.** Other Savings (Savings through 2021: \$106 billion, excluding interest)

- Reduce farm program spending by eliminating all farm payments to producers
  with adjusted gross incomes greater than \$250,000, imposing limits on direct
  payments to producers, consolidating and capping 16 conservation programs, and
  reforming federal crop insurance.
- Reform civilian retirement by calculating benefits based on a retiree's annual salary from his or her highest five years of government service; and reform the age at which career military can retire to be consistent with federal civilian retirement.
- Achieve other cost savings by raising fees for aviation security, actuarially
  adjusting flood insurance subsidies for risk, adjusting Pension Benefit Guaranty
  Corporation fees to better cover unfunded liabilities, and adopting a more accurate
  inflation measurement to calculate COLAs for all federal programs.

#### 9. Enforce the Budget, Reform the Process

- Enforce the four-year domestic discretionary freeze and the five-year defense discretionary freeze, and the limits in annual growth in the years thereafter, by imposing statutory caps on both categories of spending.
  - ✓ Exempt emergency spending from the caps but strictly limit such emergencies to specific situations, subject to certification by the President and Congress.
  - ✓ Require the Office of Management and Budget (OMB), by law, to impose across-the-board cuts in all programs within the relevant category (i.e., domestic or defense programs) if spending exceeds the caps in any fiscal year.
- Prevent new tax cuts or new entitlement spending from worsening the fiscal situation by enacting a strict, statutory "pay-as-you-go" (PAYGO) requirement:



- ✓ Require policymakers to fully offset new tax cuts, expansions of existing mandatory spending, or new mandatory spending with increases in revenues or reductions in mandatory spending.
- ✓ Trigger fully offsetting automatic cuts in predetermined mandatory programs if policymakers violate the requirement.
- Convert the federal budget process from annual to biennial budgeting.
- Enact explicit long-term budgets for the major entitlement programs.
  - ✓ Create a Fiscal Accountability Commission that would meet every five years to assess whether program growth is remaining within the long-term budgets and, if not, to propose measures to restore long-term sustainability.



#### Bipartisan Policy Center (BPC) Tax Reform Quick Summary

The Bipartisan Policy Center (BPC) Tax Reform Plan represents a radical simplification of the current tax code. In fact, to best explain it, forget what you know about the complexities of the current tax system, and start fresh. Outlined below are the core elements of the plan:

- A **two-bracket income tax with rates of 15 percent and 27 percent**. Because there is no standard deduction or personal exemptions, the 15 percent rate applies to the 1<sup>st</sup> dollar of income.<sup>3</sup>
- The **corporate tax rate would be set at 27 percent**, instead of the current 35 percent level.
- Capital gains and dividends would be taxed as ordinary income (with a top rate of 27 percent), excluding the first \$1,000 of realized net capital gains (or losses).<sup>4</sup>
- Introduce a **6.5 percent broad-based Debt Reduction Sales Tax (DRST)**, phased-in over two years.<sup>5</sup>
- To replace the overly complex Earned Income Tax Credit (EITC) and to help offset the effects of the DRST and elimination of personal exemptions, the standard deduction and the child credit, the BPC Plan would establish:
  - A flat **refundable per child tax credit of \$1,600** (higher than current law); and
  - A **refundable earnings credit**<sup>6</sup> similar to the current Making Work Pay credit, but substantially higher.

<sup>&</sup>lt;sup>3</sup> The 27 percent rate applies approximately to income above \$51,000 for single filers and \$102,000 for couples.

<sup>&</sup>lt;sup>4</sup> \$500 for singles and heads of household

<sup>&</sup>lt;sup>5</sup> The DRST would start at 3 percent in 2012, and then increase to 6.5 percent by 2013.

<sup>&</sup>lt;sup>6</sup> The refundable earnings credit is equal to 21.3 percent of the first \$20,300 of earnings.



- Instead of the current system of itemized deductions, which disproportionately subsidizes the housing consumption and charitable giving of upper-income taxpayers, the BPC Plan would:
  - o Provide a flat 15 percent refundable tax credit for charitable contributions and for up to \$25,000 per year, not indexed, mortgage interest on a primary residence.
  - o Eliminate the deduction for state and local taxes.
  - o Provide a flat, **15 percent refundable tax credit** or a deduction (for those in the higher bracket) **for contributions to retirement saving accounts** up to 20 percent of earnings or a maximum of \$20,000.
- Include 100 percent of Social Security benefits in taxable income, but:
  - Create a non-refundable credit for Social Security beneficiaries equal to 15 percent of the current standard deduction; and
  - Create a non-refundable credit equal to 15 percent of an individual's Social Security benefits.
- Allow deduction of medical expenses in excess of 10 percent of Adjusted Gross Income (AGI) (as in current law).
- Allow deduction of miscellaneous itemized deductions in excess of 5 percent of AGI.

The BPC Plan achieves a massive simplification of the tax code:

- Aligns the top individual, capital gains and dividend tax rates
- Reduces the corporate tax rate
- Eliminates the AMT
- Eliminates the need to file returns for most individuals<sup>7</sup>

Despite a low top rate of 27 percent, the new tax system created under the BPC Plan is more progressive than the current system and raises the requisite revenue to achieve our debt-reduction goal.

<sup>&</sup>lt;sup>7</sup> According to Tax Policy Center projections, only 50 percent of tax units would be required to file tax returns, as opposed to 88 percent under the current tax system.



#### **About the Bipartisan Policy Center**

In 2007, former Senate Majority Leaders Howard Baker, Tom Daschle, Bob Dole and George Mitchell founded the Bipartisan Policy Center (BPC), a non-profit organization that develops and promotes solutions that draw support from both Republicans and Democrats and generates the necessary political momentum to achieve real progress. As the only Washington-based organization promoting bipartisanship as an effective means of overcoming the challenges facing the nation, the BPC is working to restore civility and respectful discourse to the national debate.

The BPC currently has projects focused on health care, energy, national and homeland security, economic policy, and transportation. Each of these initiatives is headed by a diverse team of political and business leaders, substantive experts and academics who work closely with our staff of policy specialists and former Congressional and White House aides to develop consensus-based solutions that both Republicans and Democrats can support. The Bipartisan Policy Center Action Network, the BPC's c(4) organization, provides strategic advice and political advocacy to ensure our projects' policy recommendations have traction in Congress, the Executive Branch and the stakeholder community.

We believe it's time to revive the nation's longstanding bipartisan tradition – a tradition that in the last century produced significant achievements in energy and environmental policy, Social Security reform, and national security. Through events like Bridge-Builder Breakfasts, political summits and timely policy discussions, the BPC provides a forum to highlight policymakers and political leaders who are working collaboratively to forge bipartisan consensus on the key issues of the day.